

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

# Office Correspondence

Date January 27, 1947

To Chairman Eccles

Subject: Brief on "Silver as Money"

From Mr. Knapp

  
You will recall that at the September meeting of the Board of Governors of the International Fund a resolution introduced by Mexico was passed by the Board providing that the Fund should gather material, statistical or otherwise, concerning the silver question in order to facilitate "discussions on the subject in an international conference among interested member countries". The Fund was not asked to sponsor such a conference. However, Mr. Francis H. Brownell, Chairman of the Board of Directors of the American Smelting and Refining Company, has prepared a "Brief on Silver as Money" for presentation to the Board of Governors of the International Monetary Fund, and he has sent copies to you and to me as members of the U.S. Delegation at the September Conference.

The "Brief" proposes that the United States should peg the price of silver, foreign or domestic, at 90 cents per fine ounce, and further suggests that whenever gold or U.S. dollars must be paid into the Fund silver should be accepted by the Fund as a substitute "to the extent of, say, 10 per cent of such payment".

Mr. Brownell's defense of these proposals involves all the hackneyed arguments of the "hard money" school with which I am sure you are painfully familiar. Mr. Brownell believes that the world's metallic reserves are in danger of becoming too small, and delivers himself of the following astounding judgment which he thought important enough to place in italics:

"The breakdown of the gold standard was not caused by World War II. It happened before that war began--several years before. The physical insufficiency of gold was the main cause."

Mr. Brownell speaks of the acquisition of foreign silver as "costless"--indeed he argues that it is quite profitable because of the seigniorage. He also expresses the amazingly naive view that by raising the price of silver we would increase the wealth of the United States because of the increased paper value of its existing silver stocks. He states:

"A third objection made to the restoration of silver as a monetary metal is that so doing will benefit the silver mines. It entirely overlooks the fact that such benefit is insignificant compared with the benefit accruing to the United

"States itself as a government. Its silver amounts to over 3,184,000,000 ounces which at 90¢ an ounce has a value of nearly \$3 billion. If the price should fall to 25¢ per ounce, this silver would be worth less than \$1 billion, or a decrease of over \$2 billion dollars."

I must confess that aside from the merits (or demerits(?)) of the argument in this paper, I simply cannot understand why it should be put out by the Chairman of an industrial company which so obviously has a vested interest in the matter.

cc: Mr. Thomas  
Mr. Dembitz and Miss Maroney